

SECRET

COPY NO.

21

2479

OCI NO.

15 January 1954

CURRENT INTELLIGENCE WEEKLY



DOCUMENT NO. 8
NO CHANGE IN CLASS. ☐
☐ DECLASSIFIED
CLASS. CHANGED TO: T3 SECRET
NEXT REVIEW DATE: 12/24/79
AUTH: 12/24/79 REVIEWER: 25X1

CENTRAL INTELLIGENCE AGENCY

OFFICE OF CURRENT INTELLIGENCE

SECRET

25X1

THIS MATERIAL CONTAINS INFORMATION AFFECT-
ING THE NATIONAL DEFENSE OF THE UNITED STATES
WITHIN THE MEANING OF THE ESPIONAGE LAWS,
TITLE 18, USC, SECTIONS 793 AND 794, THE TRANSMIS-
SION OR REVELATION OF WHICH IN ANY MANNER TO
AN UNAUTHORIZED PERSON IS PROHIBITED BY LAW.

The Current Intelligence Weekly has been prepared pri-
marily for the internal use of the Central Intelligence
Agency. It does not represent a complete coverage of
all current situations. Comments and conclusions rep-
resent the immediate appraisal of the Office of Current
Intelligence.

~~SECRET~~

CONFIDENTIAL

SUMMARY OF CONTENTS

THE SOVIET WORLD Page 4

FRENCH BRACE FOR HEAVY VIET MINH ATTACK IN WESTERN
TONKIN Page 5

The French are uncertain of their ability to hold Dien Bien Phu, their strongpoint in western Tonkin. They believe that the Viet Minh will be ready to attack by 15 January but may merely contain the troops at Dien Bien Phu and move south into Laos.

THE NEW BALANCE OF SINO-SOVIET INFLUENCE IN NORTH
KOREA Page 8

The strengthening of China's position in North Korea, an area which was formerly Moscow's exclusive preserve, could create a basis for possible Sino-Soviet friction, but Moscow and Peiping appear to be developing a coordinated program of support and control.

PROSPECTS FOR THE JORDAN RIVER DEVELOPMENT PLAN Page 11

Israel and the Arab states remain as opposed to the Unified Plan for the development of the Jordan River basin as when it was presented to them in December.

MANEUVERING WITHIN THE TOP SOVIET LEADERSHIP Page 14

Besides assuming public supremacy in the agricultural sphere, Soviet party first secretary N. S. Khrushchev has apparently increased his influence over top personnel appointments. His continuing rise could seriously disrupt the present collective leadership.

UNSATISFACTORY FOOD SITUATION IN EASTERN EUROPE
THREATENS NEW ECONOMIC POLICY Page 16

Two consecutive years of poor harvests in Eastern Europe are posing serious difficulties for the Satellites' "new economic policy."

~~CONFIDENTIAL~~

~~SECRET~~

~~SECRET~~

LANIEL'S REFORM MEASURES FAIL TO CORRECT BASIC DEFECTS
IN FRENCH ECONOMY Page 18

Premier Laniel's reform decrees have failed to rectify the basic defects of the French economy. A treasury crisis early this year could lead to a left-center government and a program for economic rehabilitation which could involve drastic cuts in France's international commitments.

SPECIAL ARTICLE. THE IMPLICATIONS OF THE NEW SOVIET
ECONOMIC POLICY Page 20

Efforts by the Soviet leaders to carry out the new economic program will be accompanied by a leveling off in defense expenditures in the period 1953-55.

~~SECRET~~

THE SOVIET WORLD

Recent Soviet propaganda suggests that the Kremlin will take a rigid stand on the major issues at the Berlin conference. The Moscow periodical Kommunist states that no real relaxation of international tension is possible except through five-power efforts; that a German solution must be based on the Potsdam agreement and the Soviet policy as outlined in notes during the last 18 months; and that there can be no effective international security system without Soviet participation.

These three arguments have characterized Communist propaganda on the conference. Chou En-lai's statement of 9 January included a demand for a five-power conference, particularly to settle Asian problems, and a leading Moscow radio commentator devoted heavy emphasis to this "urgent and essential" theme.

Another Moscow radio commentator reaffirmed Soviet opposition to the sort of free, all-German election envisioned by the West, as "neither free nor an all-German expression of the people's will," because it would be held under foreign influence and with foreign interference. It was further charged that Bonn actually wanted elections only in East Germany. Other propaganda on the German issue has accused the West of not desiring German unity, and has demanded German representation at Berlin, two themes which reflect Communist concern over an adverse reaction to the conference from the East German population.

The Kommunist attack on security systems which exclude the USSR was an obvious reference to EDC, a frequent object of heavy Soviet attack, which will probably again be under fire at Berlin. Positive security proposals of the USSR are likely to be limited to bilateral or multilateral pacts to supersede EDC, because the establishment of any new, all-European organization would threaten the Soviet Union with loss of control of its Satellites without any assurance of increased influence in Western Europe.

The return to Berlin of High Commissioner Semenov from his long visit in Moscow suggests that the Soviet Union has completed its preparations for the conference, and that it will not deliberately use the negotiations on the meeting site to delay the start beyond 25 January. In three preliminary meetings, the Soviet representative insisted that at least half of the meetings be held in East Berlin, but abandoned his original demand that they all be held there.

SECRET

FRENCH BRACE FOR HEAVY VIET MINH ATTACK
IN WESTERN TONKIN

The French are uncertain of their ability to hold Dien Bien Phu, their strongpoint in western Tonkin, which is faced with one of the largest concentrations of troops the Viet Minh has assembled in seven years of the war in Indochina. They believe that the Viet Minh will be ready to attack by 15 January, but may merely contain the French at Dien Bien Phu and move south into Laos (see map, page 7). 25X1

[REDACTED] Dien Bien Phu's garrison of 12 battalions plus supporting artillery is encircled by 18 battalions of the 308th and 316th Divisions and the 148th Independent Regiment. Advance elements of the nine battalions of the 312th Division have been moving westward and six battalions were expected at Dien Bien Phu by 12 January. Four battalions of light artillery from the 351st Artillery Division are also approaching and can probably be in position by 15 January.

The French can reinforce their outpost only at the expense of other areas, particularly the critical Tonkin delta, where the mobile reserve has already been reduced from some 40 to 19 battalions. 25X1

[REDACTED]
The French, however, who originally hoped to inflict a costly defeat on the enemy, have shown considerable apprehension as the numerical superiority of the Viet Minh has increased to about two to one.

Dien Bien Phu is supplied wholly by air, and transport flights now number from 70 to 100 daily. The French have been concerned over reports that the Viet Minh now has 37mm antiaircraft guns, but thus far these reports have not been confirmed. However, there are believed to be four enemy antiaircraft companies, equipped with 12.7mm machineguns, in the Dien Bien Phu area, and the Viet Minh during the past two years has been increasingly effective with these weapons against low-flying transport and fighter aircraft. An additional factor is the imminent arrival of the "crachin," the annual period of approximately two months of fog and drizzle which will hamper flights from the Tonkin delta.

The Viet Minh, unwilling to accept the heavy casualties among its best divisions which a determined attack on Dien Bien Phu would involve, may attempt merely to contain the garrison there while sending the bulk of its forces southward against

~~SECRET~~

~~SECRET~~

the royal capital of Luang Prabang or the French military post at Xieng Khouang, both in northern Laos. Enemy reconnaissance and stockpiling of rice to the west and southwest of Dien Bien Phu point to the possibility that at least one Viet Minh division may move south.

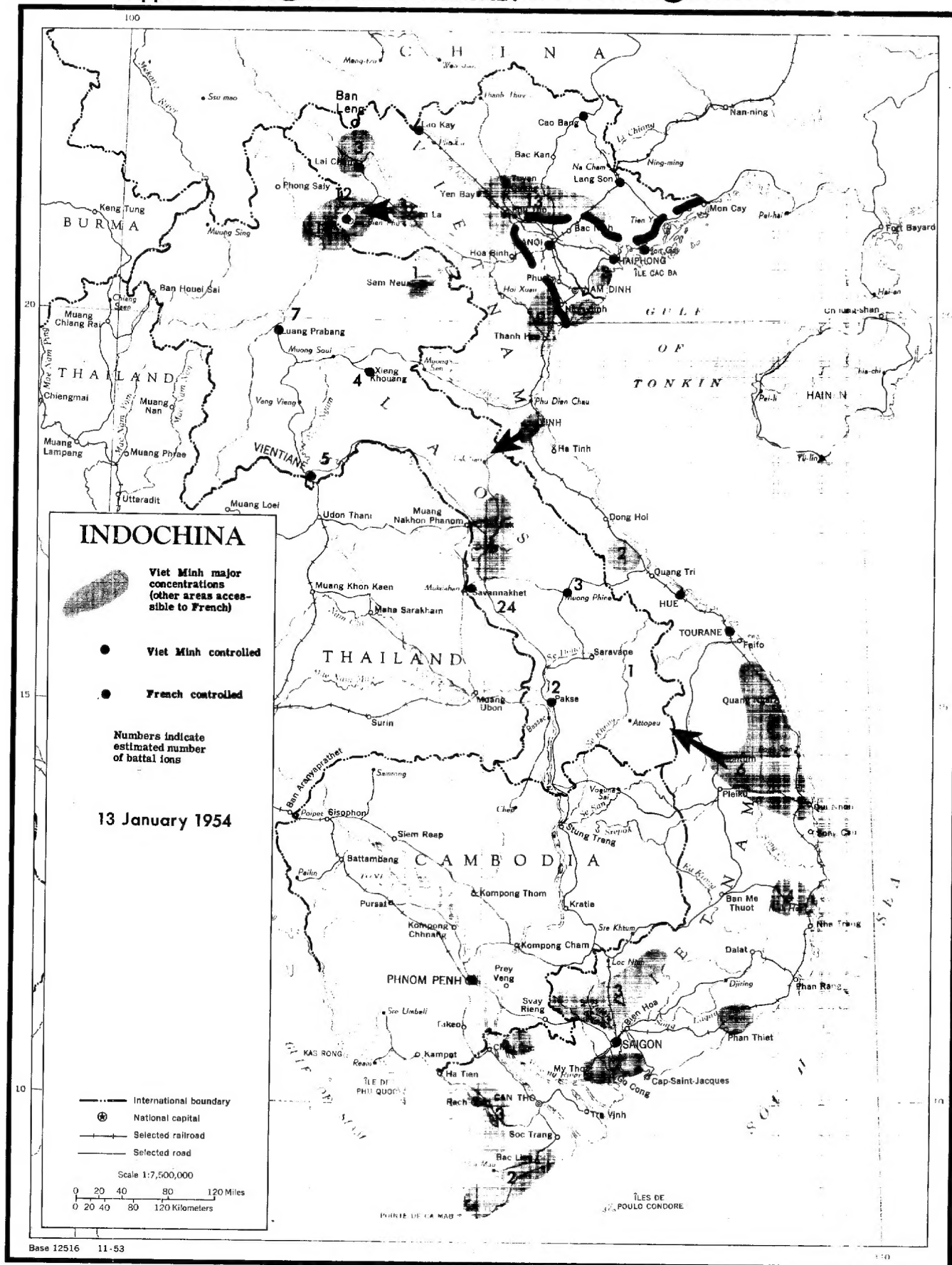
The Viet Minh is stronger logistically than during last spring's invasion of Laos and would also be aided in a penetration of that country by a new supply route from Ban Leng, China, southward to Laichau, which is expected to be usable by light vehicles by the end of January.

In central Laos, meanwhile, the French have struck back at the Viet Minh force of less than six battalions which reached the Mekong River in late December. They claim to have inflicted heavy casualties by ground and air attack on the enemy troops now located some 20 miles northeast of Savannakhet.

The French have a preponderance of strength in this area and the Viet Minh, even with perhaps three additional battalions reportedly moving westward from Vinh, is not likely to attempt a serious attack against the reinforced French positions. More likely are attempts to continue the blocking of French lines of communications along the Mekong, or a move north toward the Paksane-Vientiane area, possibly in conjunction with an invasion into northern Laos by the main Viet Minh force now in western Tonkin.

Combined with any of these moves, the Viet Minh could attempt diversionary action in southern Laos, as suggested by an unconfirmed report of 11 January that six enemy battalions were moving in the direction of Attapeu from the Annam coast.

~~SECRET~~



SECRET

40113

THE NEW BALANCE OF SINO-SOVIET INFLUENCE IN NORTH KOREA

A new balance of Sino-Soviet influence is developing in North Korea. While the strengthening of China's position in an area which was formerly Moscow's exclusive preserve could create a basis for Sino-Soviet friction, Moscow and Peiping appear to be developing in harmony a coordinated program of support and control.

From its establishment in 1945 until late in 1950, the North Korean regime was a model Soviet satellite, responsive solely to Moscow. Since the Chinese Communist intervention in the Korean war in November 1950, however, Chinese troop strength in Korea has been maintained at a level of from 750,000 to 875,000 men, and the Chinese suffered an estimated 943,000 killed or wounded. The magnitude of the Chinese investment in Korea and indications in Peiping's propaganda that some part of its forces would remain there indefinitely suggest Soviet agreement to a substantial and continuing Chinese role in Korea.

Within two months of the Korean armistice in July 1953, both Moscow and Peiping made clear that they planned to participate in the rehabilitation of North Korea. Malenkov's announcement on 8 August that the USSR would allocate one billion rubles for North Korean reconstruction was followed on 15 August by Chou En-lai's promise of "active support and assistance in repairing war damage." During October, Peiping sent to North Korea a 4,000-man "delegation" which publicly announced that the Chinese would maintain their military commitment until the Korean question was "settled peacefully."

Conclusive evidence of Peiping's intention to increase its influence in North Korea was provided by the economic and cultural pact signed on 23 November. The ten-year agreement provides for cancellation of North Korean war debts to China and for economic aid greater than that given by the USSR, although spread over a longer period.

Moscow was quick to state that the 23 November pact had "considerable political importance" and represented a "triumph of proletarian internationalism." By sanctioning the pact Moscow was in effect acknowledging China's expanded authority in North Korea. The Soviet press now emphasizes the joint Soviet-Chinese assistance being given to North Korea and refers

~~SECRET~~

~~SECRET~~

to the Sino-North Korean agreement as a complete understanding in which the traditional friendly relations between China and Korea "must be strengthened and developed." Kim Il-sung also stressed the complementary nature of the pacts.

Peiping spokesmen, for their part, interpret the agreement as contributing to the over-all strength of "the camp of peace and democracy...headed by the Soviet Union." The Chinese also are taking care to refute Western speculation about Sino-Soviet rivalry in Korea. One of Peiping's spokesmen has stated that "the strong unity of the whole camp of peace and democracy headed by the Soviet Union can never be broken by any slanders...by the imperialists."

The USSR still appears to play the dominant role in North Korean political affairs. The Soviet-trained Koreans continue to control the government and the party, and Soviet advisers are present in all ministries. Neither the purges of last August nor the recent presidium changes seem to have affected the power of this faction. The Chinese do not appear to have challenged Soviet political primacy despite their leading role at Panmunjom.

Moscow and Peiping are complementing each other's efforts to support North Korean reconstruction. Moscow appears to hold the initiative and responsibility for rebuilding heavy industry and has revived three of its joint-stock companies dealing with transportation and oil in North Korea.

All of the East European Satellites except Albania have also promised to send technical assistance. The presence of Satellite personnel and materials will enlarge the Soviet stake in North Korea and is another indication that the USSR intends to maintain its high degree of influence even at some sacrifice to the Satellite economies.

Communist China, for its part, has promised to send large quantities of food and clothing and appears to be assuming the responsibility for supplying much of the manpower for North Korea's rehabilitation. Presumably as a result of China's particular experience and interest in Korean railroad reconstruction, it has reportedly already begun to supply locomotives, rolling stock, and construction materials badly needed for Peiping's own industrial and rail expansion program.

~~SECRET~~

The USSR, which during the Korean war preferred to remain in the background and reportedly maintained only about 10,000 military and technical advisers in North Korea, probably prefers that the Chinese assume the major defense role.

The Chinese army in North Korea includes sizable labor units which have established themselves on a semipermanent basis. [redacted] large numbers of Chinese laborers have entered North Korea in organized units and Chinese "technicians" have been mentioned in propaganda output, but there is no firm indication as yet that they are actually "settling" there. In view of the wartime decline in North Korea's population and China's continuing surplus, however, some influx seems logical as a means to relieve Pyongyang's critical manpower shortage.

25X1

The USSR's attitude toward the Korean political conference also demonstrates a desire to maintain maximum power and influence in North Korea with minimum responsibility. Communist spokesmen have consistently held that the USSR was neutral in the Korean war and have rejected all United Nations proposals which would label Moscow as a belligerent or bind it to any agreements reached by the political conference.

While the Sino-Soviet condominium in North Korea appears to contain some potential for Sino-Soviet discord, there is no reliable evidence of its existence at this time. Some observers have interpreted the statements of Chinese representatives in the Korean peace talks as indicating that Peiping does not desire Moscow to be represented at the talks and regards Korea as none of Moscow's concern. These statements, however, are consistent with a Sino-Soviet understanding on the respective roles in Korea.

~~SECRET~~

PROSPECTS FOR THE JORDAN RIVER DEVELOPMENT PLAN

As the date of Eric Johnston's return visit to the Middle East approaches, Israel and the Arab states remain as opposed to the Unified Plan for the development of the Jordan River basin as when Johnston explained it to them in December (see map, page 13). Each side is considering it further only in the hope that the other will bear the onus for rejecting it.

The Unified Plan was drawn up by the Tennessee Valley Authority for the UN Relief and Works Agency in order to develop the Jordan valley and provide an opportunity to resettle 200,000 of the 850,000 Arab refugees. The \$121,000,000 plan aims to utilize the waters of the Jordan basin without regard for political boundaries. It emphasizes irrigation -- 122,555 acres in Jordan, 104,000 in Israel, and 7,500 in Syria -- and the production of hydroelectric power. It involves Lebanon only as the source of some Jordan River water. The necessary Arab and Israeli support would be obtained through some neutral body rather than by means of a more desirable, but politically impossible, direct collaboration.

Only Lebanon, which has been less opposed than the other Arab states to reducing Arab-Israeli tension, has shown any genuine willingness to cooperate. Lebanon can do little for the plan, however, unless it is accepted by Jordan and Syria.

The Jordanian government fears that popular opinion will not tolerate Arab-Israeli cooperation, however subtly disguised by neutral control. Public opinion is now so bitter toward Israel as a result of the Qibya massacre that the government is afraid to hold high-level armistice talks with Israel. Moreover, Israeli insistence on pushing the talks will further restrict the government's ability to act constructively. In this situation, Jordan stands fast on the virtual rejection it gave Johnston in December.

Syria drives a hard bargain on the plan as on other dealings with the United States. Syrian president Shishakli has consistently rejected the Point IV Program as inadequate, has refused to implement his agreement to resettle 80,000 refugees, and wants a military aid program patterned on that for Turkey.

~~SECRET~~

~~SECRET~~

As a condition for acceptance of the Unified Plan, Shishakli insists on the carrying out of the UN resolutions for the partition of Palestine, the repatriation of Arab refugees, and the internationalization of Jerusalem. His suggested modification of the plan is opposed by the United States. Finally, his unequivocal rejection is likely if Israel pushes its attempted diversion of the Jordan River in the Israeli-Syrian demilitarized zone.

There is growing dissatisfaction among some Arab leaders with the policy of outright rejection of Western proposals concerning Israel, and the Arabs may offer counterproposals to Johnston. Such proposals are not likely to be meaningful, however, if the Jordanians, Syrians, and Lebanese as a whole are not genuinely cooperative, and if the Egyptians, because of their growing neutralism, and the Iraqis, [REDACTED] offer any opposition.

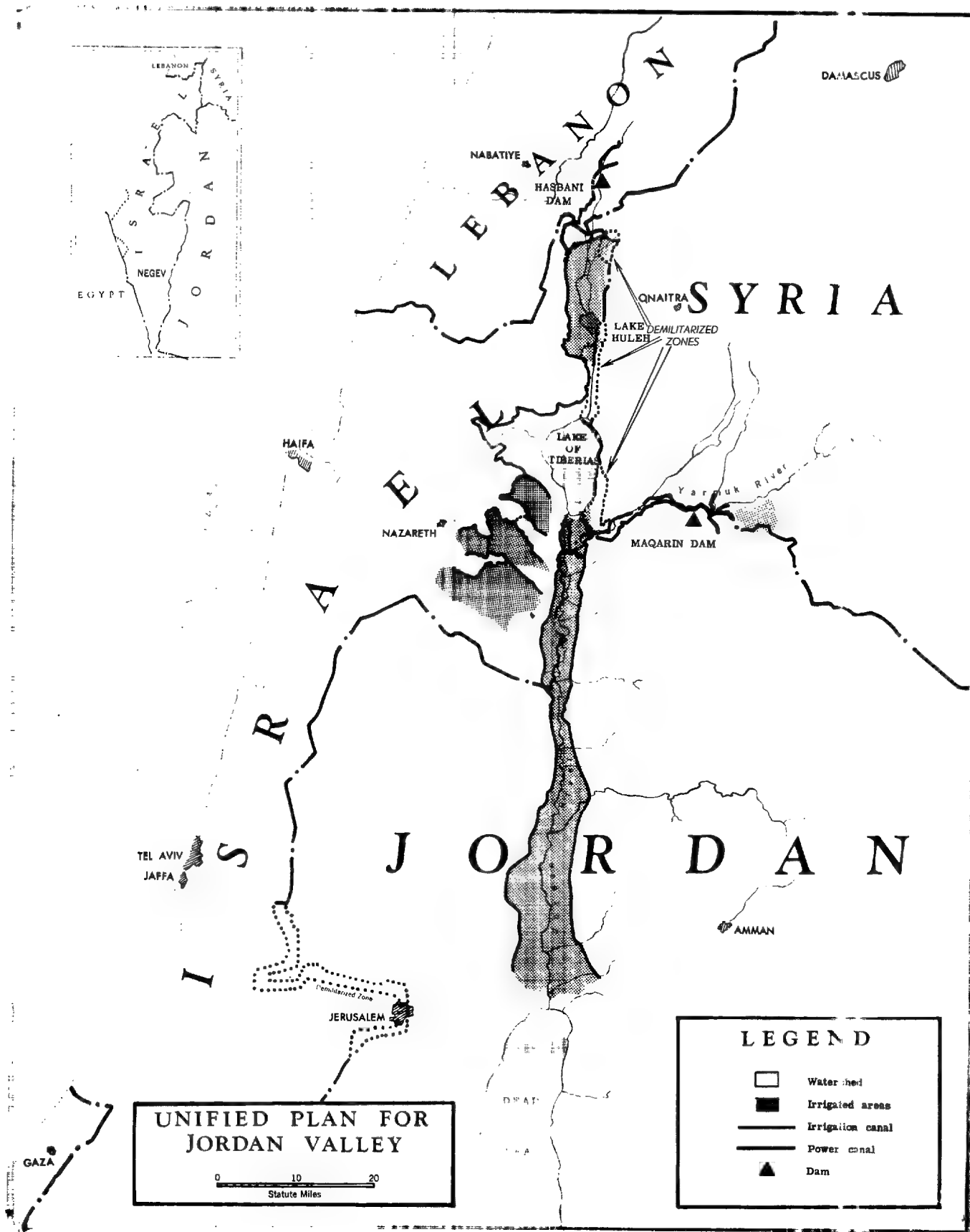
25X6

While the Arab states oppose the plan chiefly for political reasons, Israel opposes it as inadequate for its own needs. Conceived as the quickest and most economic way to resettle the Arabs and develop the region as a whole, the plan conflicts with Israel's aim to divert the waters from the Jordan River watershed to its own Negev desert. Hence, Israel, not wanting to appear to obstruct a constructive approach to area development, probably hopes the Arabs will relieve it of the necessity of rejecting the plan.

To that end, Israel has assumed a provocative attitude toward both Syria and Jordan. Arab rejection of the plan, or endless discussion of it, will leave the Israelis in a position to continue construction of their Jordan River diversionary canal regardless of UN requests, Western pleading, and Syrian threats.

Even if the Arab states and Israel accept the principles of the plan, the intense bitterness between the two sides may prevent its implementation.

~~SECRET~~



SECRET

MANEUVERING WITHIN THE TOP SOVIET LEADERSHIP

The Soviet leadership continues to operate behind a facade of strict collectivity, but events of past months suggest considerable maneuvering within the ruling group.

Since Stalin's death, Soviet propaganda has been carefully emphasizing that important policy decisions are being made collectively by the more than two hundred members of the central committee of the Communist Party. Actually there appears to be a degree of joint leadership only among the top five or six members of the Soviet hierarchy, with Malenkov clearly enjoying the most influential position. Reports of the activities of Soviet leaders suggest that each of the top men has responsible executive autonomy in his own sphere within the limitations of the policy line agreed to by the group as a whole.

Past months have seen a striking rise in the stature of party first secretary N. S. Khrushchev within this group, a rise which might eventually disrupt the balance achieved since Stalin's death. Whereas Khrushchev was only number five in the list of the top-level party presidium published in May 1953, having fluctuated between seventh and ninth in the last months of Stalin's regime, he had risen to the number three spot by August 1953, following Malenkov and Molotov. At present, his prestige has apparently outstripped Molotov's, for he now receives treatment in Soviet propaganda comparable to that accorded Malenkov, and leading Soviet officials have been careful to mention both men equally in connection with the new economic program.

The principal source of Khrushchev's strength is his position as first secretary of the Communist Party, a title acquired early in September 1953. This presumably places him at the head of the party apparatus, which checks on the execution of policy by administrative organs throughout the USSR. It also should give him a major voice in state and party personnel matters, since the central apparatus is the clearing house for all such appointments. Both Stalin and Malenkov originally rose to power through their leadership in the apparatus.

As the second strongest figure in the collective leadership, Khrushchev is in the best position to compete with Malenkov for primacy, and, although Khrushchev is considered a long-time Malenkov associate, there have recently been some suggestions, as yet inconclusive, of a developing rivalry between the two men.

SECRET

~~SECRET~~

In the vital agricultural sphere, Khrushchev gave the presidium's definitive report before the party central committee in September 1953. Although subsequent speakers on economic policy all paid homage to Malenkov's 8 August speech which outlined the new economic policy as a whole, Khrushchev notably failed to do so. Since September Khrushchev's name has been the one most frequently associated with agricultural policy.

In the personnel field, a number of Khrushchev's known associates have recently been promoted or reinstated. In contrast, two men who publicly criticized Khrushchev's agricultural policy in 1951, and who were also Beria associates, have lost important jobs which they held for 14 and 20 years respectively.

Other personnel shifts in which Khrushchev has been involved appear inimical to Malenkov's interests. Khrushchev attended the Leningrad party plenum which removed V. M. Andrianov, long considered a Malenkov protégé, from his post as first secretary of the Leningrad provincial party committee. The two ministers appointed in agriculture since Khrushchev publicly assumed leadership in that sphere had both received demotions at the 1952 Party Congress in which Malenkov played a leading role.

Khrushchev's party position, influence in personnel matters, and primacy in the agricultural program lend added significance to the possibility of rivalry with Malenkov within the context of collective leadership.

~~SECRET~~

~~SECRET~~

UNSATISFACTORY FOOD SITUATION IN EASTERN EUROPE THREATENS NEW ECONOMIC POLICY

Two consecutive years of poor harvests in Eastern Europe are posing serious difficulties for the Satellites' "new economic policy." Although the 1953 harvest, particularly of bread grains, was somewhat better than that of 1952, which saw the worst crop failures since the war, it was again below prewar and postwar averages.

A widespread drought during the early spring and late summer of 1953 decreased yields of spring-sown grains, vegetables, and root crops. In East Germany and Poland, potatoes, which are of primary importance as both a food staple and fodder, are at least as seriously short as in 1952. In Hungary, the corn harvest was somewhat better than the disastrous crop of last year, but in Rumania the production of corn, the basic foodstuff for both humans and livestock, fell 50 percent short of plans for the second year in a row.

In addition, below-normal precipitation for the past six months will probably seriously reduce the bread and fodder grain harvest next spring. As a result of the poor fodder crops and insufficient livestock, the shortage of meat and dairy products is still serious and expected to become critical by spring unless enough can be imported from the West to meet the shortage. The Soviet Union is not in a position to increase its livestock imports to cover the Satellite deficiency.

Over and above the poor weather, inefficiency in harvesting operations, a manpower shortage, and peasant resistance were responsible for heavy losses and lagging crop collections. The incentive programs initiated during the past summer and fall by the Satellite regimes appear to be doing little to raise food supplies. In fact, expectations of further concessions have apparently strengthened many peasants' resolve to hold their crops until prospects for the 1954 grain harvest are clear. There is no evidence, however, that the Communist regimes are considering a return to coercion as a means of forcing crop deliveries.

The food shortage, which is likely to worsen toward spring, will probably prevent the Satellites from fulfilling their export commitments with non-Orbit countries. Poland, for example, has already failed to fulfill its promise to deliver grain to Norway, which in turn has indicated that it will not send Poland the 250 tons of aluminum provided for in the 1953 trade agreement. Similar trade difficulties will probably be met by the other Satellites, particularly Hungary.

~~SECRET~~

~~SECRET~~

The Satellites also face the prospect of having to increase food imports from the West at the expense of other consumer goods and industrial materials. Inability to increase imports of industrial raw materials will complicate the problem of raising domestic consumer goods production. This will interfere with the efforts to improve the standard of living of urban workers and with the program of attracting more agricultural products to urban markets.

The adverse effect of the continued shortage of agricultural products on worker morale and efficiency is bound to handicap the "new course," whose ultimate aim is increased industrial productivity. Failure to improve living standards will in turn increase skepticism, apathy, and possibly passive resistance among the Satellite populations.

SECRET

LANIEL'S REFORM MEASURES FAIL TO CORRECT BASIC DEFECTS IN FRENCH ECONOMY

Premier Laniel's reform decrees of last summer resulted in a slight improvement in France's economic and financial position, but fell far short of rectifying the economy's basic defects of high-cost production and distribution and extensive government protection of special interests. The continuing lag in industrial production has raised fears of uncontrolled deflation, and a treasury crisis in the next few months could lead to a left-center government and further cuts in France's military expenditures.

France held its foreign trade deficit for 1953 to less than half the 1952 figure of \$652,000,000, but only through a policy of special benefits to exporters and strict limitation of imports. A reduction in the trade deficit with the United States, coupled with dollar aid from off-shore procurement orders, American military spending and aid for Indochina, has enabled France to replenish its foreign currency reserves and make its dollar payments to the European Payments Union. The trade balance with the sterling area has continued to deteriorate, however, and fundamental internal factors continue to weaken the over-all French trade position.

Year-end financial commitments were met with the help of the five-percent treasury loan offered on 7 December. The economic stability of the past 18 months and an upsurge in confidence in the franc have helped to encourage private saving, and the current slump in the world gold market is expected to lead to widespread demand for government bonds.

The government's ability to finance the 1954 budget will depend on this expected revival of the private capital market, and there are indications that an attempt will be made to obtain the estimated 85 billion francs still needed by floating a long-term loan by April. The benefits of a successful loan, however, can be nullified if sufficient American off-shore purchases and other dollar aid do not materialize to meet budget demands as they arise.

While the government's financial position thus gives some cause for optimism, the stagnation of the French economy during 1953 has intensified fears of deflation in early 1954. The index for industrial production has been running about seven points below the 1952 figure of 145, and no general pickup is likely in the normally slack winter months. Despite Laniel's endeavor to facilitate expansion through credit and

SECRET

~~SECRET~~

tax concessions, the general economic sluggishness, now aggravated by the fear of a recession in the United States, has continued to hold down credit demands.

Government efforts to lower prices and thereby assuage labor's demands for increased wages have had more success. Aided by good crops and a beef surplus, Laniel's price program has lowered the cost of living about 2.1 percent since last August. The Minimum Wage Commission's recommendation of 28 December for a raise in basic wages has not been agreed to by the employers group, however, and there has already been some new labor agitation for bonuses and higher wages. If such pressure becomes widespread at a time when credit is readily available, it could provoke another inflationary spiral and increase the demand for devaluation.

Laniel's use of the decree power granted by the National Assembly in July has been limited by the need to reconcile the effects of both deflationary and inflationary currents in the French economy. This plus the conflicting pressures in the National Assembly has prevented an effective attack on the basic weaknesses of the economy. In particular, the disparity between French and world prices is still a brake on any over-all increase in production and a lasting correction of the chronic trade imbalance.

The French economy is now at a point where any one of a number of normally small factors could either strengthen or weaken it. An adverse trend would quickly affect the political balance. The government's tactic of handling a large part of the 1954 investment program through "guaranteed loans" raised on the private capital market rather than through direct appropriations has already brought criticism from the left. There is a strong possibility that the decline in profits will severely limit private investment, and the Socialists in particular will be quick to attack any government failing to make up these deficiencies in investment capital out of public funds.

The more immediate danger is that if a search for a new premier should coincide with a treasury crisis early this year, the political balance might tip in favor of a left-center coalition headed by Mendes-France. His program for economic rehabilitation would involve drastic reductions in France's international commitments and would affect not only the French stand on Indochina, but also, if production and trade continue to lag, France's NATO obligations.

~~SECRET~~

SPECIAL ARTICLE

THE IMPLICATIONS OF THE NEW SOVIET ECONOMIC POLICY*

Efforts by the Soviet leaders to carry out the new economic program will be accompanied by a leveling off in defense expenditures in the period 1953-55. Despite strenuous attempts by the government, however, the new goals for consumer goods are not likely to be fully attained because of basic economic difficulties within the USSR. Prospects of success are poorest in agriculture, the most important phase of the new program.

In 1954 and 1955 military expenditures probably will rise 2 to 3 percent annually in contrast to an annual increase of 23 percent from 1950 to 1952. There may be selective cutbacks in the production of conventional armaments, many types of which are already stockpiled in great quantity. Nevertheless, the Soviet government is expected to continue military procurement at a rate which will permit the maintenance of the armed forces at present high levels and allow a continuous qualitative improvement in weapons and equipment.

The present and immediately foreseeable international atmosphere evidently appears not to require any extensive growth in the size of the military establishment. In the long run, however, the impact of the new economic measures is not expected to impair Soviet economic capacity to support war, since immediate sacrifices of such growth must be weighed against improvements in labor productivity stemming from new material incentives for workers and farmers and increased popular support for the government.

Essentially the program contemplates a leveling off of military expenditures and heavy industrial investment, paralleled by rising investments in agriculture and light industry. The rate of growth of the economy as a whole for the next two years apparently will be about 6.5 percent annually, the same as estimated under the original plan.

Transitional adjustments in 1953 had some adverse effect on expansion of the gross national product. These occurred

* Prepared by the Office of Research and Reports, CIA.

SECRET

~~SECRET~~

principally in the fabricated metals industries, which were required to change the composition of their output, and in defense industries, which markedly reduced their rate of growth in 1953. There also was a rapid temporary decline in the rate of new investment as a result of the reformulation of the whole construction program.

The Soviet effort to carry out the new policies will be sufficient to arrest past declines in the percentage share of the gross national product allotted to consumption, and to permit a small increase in this share.

The largest relative increases in production are slated for consumer durables, which have been conspicuously scarce. Special attention is given to increased output of higher quality consumer goods. In the textile industry the emphasis is on the better grade items of apparel. Similarly, the major emphasis in food products is on greater availability of meat, dairy products, vegetables, and canned goods.

The Soviet government has adopted far-reaching measures to increase agricultural production. These include higher prices to farmers, lower delivery quotas and tax rates, larger investments in equipment and fixed facilities, higher priorities for the output of machinery and chemical plants and for transportation and construction services, and a transfer of skilled labor back to the farms. Despite these measures, shortages of fertilizers, equipment and trained personnel probably will prevent full achievement of the agricultural production plans.

Chances of success are much greater for increased production of manufactured consumer goods. Within this category prospects are better for consumer durables than for such nondurables as clothing and processed foods, which are more closely dependent on agricultural output.

The revised goals for retail sales are significantly larger than the goals for consumer goods output. In addition to domestic production, the retail trade program is dependent on imports, on channeling of a larger proportion of agricultural produce from consumption on the farms to retail marketing channels, and probably on some withdrawals from stockpiles.

The recent sharp increase in Soviet purchases of consumer goods from non-Communist countries is designed to supplement the distribution program, although imports are small in relation to Soviet goals. Gold sales are only one of several means the Soviet Union may employ in increasing export volume to pay for expanded imports of both consumer and capital goods.

~~SECRET~~

~~SECRET~~
CONFIDENTIAL

The new program necessitates a change in the pattern of investment, for example, a transfer from heavy industrial equipment to light and medium industrial equipment, but does not imply a reduction in total investment. Compared with the original Five-Year Plan, investment in heavy industry is being diminished to allow substantially greater investments in agriculture and light industry.

Performance in 1953 under the new plan has been lagging considerably behind Soviet hopes. Internal trade minister Mikoyan admitted in October that retail sales of consumer goods in the first three quarters of 1953 had not even reached the goal set in the original Five-Year Plan, which was later raised by 37 billion rubles. There is also evidence of construction lags in consumer goods industries, and the Soviet press has sharply criticized the slow rate of movement of specialists and technicians to agriculture where the level of achievement will be the primary factor in determining the success of the consumer goods program as a whole.

CONFIDENTIAL~~SECRET~~